

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Tustin	County Osceola
Fiscal Year End 2-28-06	Opinion Date 5-5-06	Date Audit Report Submitted to State July 11, 2006	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name Michael D. Cool	License Number 1101023146

VILLAGE OF TUSTIN, MICHIGAN

FEBRUARY 28, 2006

VILLAGE OF TUSTIN, MICHIGAN

FEBRUARY 28, 2006

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

May 5, 2006

INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Tustin, Michigan

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Tustin, Michigan as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Tustin, Michigan as of February 28, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Village has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of March 1, 2004.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have

applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Tustin, Michigan's basic financial statements. The individual fund financial statements and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

VILLAGE OF TUSTIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

Management's Discussion and Analysis

The management of the Village of Tustin, Michigan ("the Village") offers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2006, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

Government-Wide

- ❖ The assets of the Village exceeded its liabilities at the close of this fiscal year by \$444,429 (shown as *Net Assets*), representing an increase of \$33,960 over the previous fiscal year.

Fund Level Financial Highlights

- ❖ As of February 28, 2006, the governmental funds of the Village of Tustin reported combined ending fund balances of \$48,111, of which \$26,542 is unreserved.

Long-Term Debt

- ❖ The Village of Tustin's total debt increased by \$2,629 during the fiscal year.

Overview of the Financial Statements

The Village of Tustin's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the Village's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the Village as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

The *Statement of Net Assets* (Pages 1-2) presents information on all of the Village's assets and liabilities, the difference between the two being reported as the Net Assets of the Village. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Village is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

VILLAGE OF TUSTIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

The *Statement of Activities* (Page 3) gives the information on the revenues and expenses causing the underlying change in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the Village that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the Village include general government, public works, other functions and debt service.

Focus on Funds

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The Village's major Governmental Funds include the General Fund, Major Street Fund, and Local Street Fund.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Village of Tustin uses fund accounting to ensure compliance with finance-related legal requirements.

Governmental Funds Many of the Village's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual basis of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements on the Statement of Revenues, Expenditures and Changes in Fund Balance as an expenditure. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the Village include the General Fund as well as the Special Revenue funds.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The notes can be found beginning on Page 8 of this report.

VILLAGE OF TUSTIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Village's financial position over time. The Net Assets of the Village are \$444,429 at February 28, 2006, meaning that the Village's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Village of Tustin
Net Assets
As of February 28, 2006

	<u>Governmental Activities</u>
Current assets	\$ 49,381
Capital Assets, Net of Accumulated Depreciation	<u>411,618</u>
Total Assets	<u>460,999</u>
Current liabilities	4,677
Non current liabilities	<u>11,893</u>
Total Liabilities	<u>16,570</u>
Net Assets	
Invested in capital assets, net of related debt	396,318
Unrestricted	<u>48,111</u>
Total Net Assets	\$ <u>444,429</u>

The most significant portion of the Village's Net Assets is the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Village has \$48,111 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Village policies regarding their use.

The total net assets of the Village increased \$33,960 in this fiscal year, which is a good indicator that the Village experienced positive financial growth during the year. As a result, the Village ended the fiscal year in better condition than when the year started.

The following table illustrates and summarizes the results of the changes in the Net Assets for the Village. The condensed information was derived from the Government-wide Statement of Activities.

VILLAGE OF TUSTIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

Village of Tustin
Change in Net Assets
For the Fiscal Year Ended February 28, 2006

	<u>Governmental Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 0
Operating Grants and Contributions	35,716
General Revenues	
Taxes	26,190
State Shared Revenue	25,683
Unrestricted Investment Earnings	15,237
Gain on Sale of Capital Assets	17,232
Other	7,157
Total Revenues	<u>127,215</u>
<u>Expenses</u>	
Legislative	8,669
General Government	34,340
Public Works	43,064
Other Functions	5,849
Interest on Long Term Debt	1,333
Total Expenses	<u>93,255</u>
Increase (Decrease) in Net Assets	33,960
Beginning Net Assets	410,469
Ending Net Assets	<u>\$ 444,429</u>

Governmental Activities

The most significant portion of the revenue for all governmental activities of the Village of Tustin comes from State Shared Revenue (48.26%).

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes.

The Village's governmental activities expenses are dominated by the Public Works expenses that represent 43.97% of total expenses. The Village spent \$39,384 in FY2006 on Public Works. Expenses in the Major Street Fund (\$14,141) and Local Street Fund (\$7,213) represent a large

VILLAGE OF TUSTIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

portion of the Public Works expenditures. General Government Administrative represented the next largest expense at \$34,340 or 38.34% of total expenses within the governmental activities.

Financial Analysis of the Government's Funds

Governmental Activities At the completion of the Village's fiscal year ended February 28, 2006, its governmental funds reported fund balances of \$48,111. Of this amount, \$26,542, or 55.17% is unreserved. The remaining \$21,569 of fund balance of the governmental funds is reserved for specific purposes and is therefore not available for new appropriation.

General Fund – The General Fund is the main operating fund of the Village. The General Fund increased its fund balance in this fiscal year by \$1,048, bringing the balance to \$26,542.

Major Street Fund – The fund balance of the Major Street Fund ended the year at \$11,555. This was an increase of \$245 from the previous year.

Local Street Fund – The fund balance of this fund is at \$10,014, an increase of \$7,196, during this fiscal year.

Capital Asset and Debt Administration

Capital Assets. The Village's investment in capital assets for the governmental activities as of February 28, 2006 amounted to \$411,618 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$1,000 and have an expected useful life of over one year. The Village has invested in a broad range of capital assets, as detailed below:

<i>Village of Tustin</i> <i>Capital Assets as of February 28, 2006</i>	
	<u>Governmental Activities</u>
Buildings	\$ 119,950
Land	1
Land Improvements	7,829
Equipment	71,748
Streets	311,543
Sidewalks	<u>75,030</u>
Subtotal	586,101
Accumulated Depreciation	<u>174,483</u>
Net Capital Assets	<u>\$ 411,618</u>

Major capital asset events during FY2006 included the following:

VILLAGE OF TUSTIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2006

- The Village purchased a new John Deere tractor and loader at a cost of \$35,228.
- The Village purchased a new John Deere lawn tractor and accessories at a cost of \$6,048.
- The Village traded in a John Deere tractor and a John Deere lawn tractor on the purchase of the new tractors.
- Resurfacing was done on Church Street at a cost of \$3,680.
- A planter was installed at a cost of \$1,440.
- Playground equipment was installed at a cost of \$1,498.

Long-Term Debt. As of February 28, 2006, the Village had total debt outstanding of \$15,300.

The Village's total debt increased by \$2,629 during the current fiscal year. The key factor in this increase was an equipment contract of \$18,450 issued for the purchase of a tractor. Long-term debt retired amounted to \$15,821.

Additional information on the Village's long-term debt can be found in Note III, F on pages 16-17 of this report.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues.

These factors were considered in preparing the Village's budgets for the 2006-07 fiscal year.

Contacting the Village's Finance Department

This financial report is designed to provide the wide variety of users of this document with a general overview of the Village's finances and demonstrate the Village's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of Tustin, 310 Neilson Street, P.O. Box 227, Tustin, MI 49688.

VILLAGE OF TUSTIN, MICHIGAN

STATEMENT OF NET ASSETS

FEBRUARY 28, 2006

	<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
<u>CURRENT ASSETS</u>		
Cash		\$ 26,230
Receivables		
Taxes		5,194
Due from Other Governments		<u>17,957</u>
Total Current Assets		<u>\$ 49,381</u>
<u>CAPITAL ASSETS</u>		
Buildings		\$ 119,950
Land		1
Land Improvements		7,829
Equipment		71,748
Streets		311,543
Sidewalks		<u>75,030</u>
		\$ 586,101
Less Accumulated Depreciation		<u>174,483</u>
Net Capital Assets		<u>\$ 411,618</u>
TOTAL ASSETS		<u>\$ 460,999</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN

STATEMENT OF NET ASSETS

FEBRUARY 28, 2006

	GOVERNMENTAL ACTIVITIES
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 1,270
Current Portion of Non Current Liabilities	3,407
Total Current Liabilities	4,677
<u>Non Current Liabilities</u>	
Equipment Contract Payable	\$ 15,300
Less Current Portion of Non Current Liabilities	(3,407)
Total Non Current Liabilities	11,893
Total Liabilities	16,570
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 396,318
Unrestricted	48,111
TOTAL NET ASSETS	\$ 444,429
TOTAL LIABILITIES AND NET ASSETS	\$ 460,999

The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 28, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS TOTALS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES					
Legislative	\$ 8,669	\$ 0	\$ 0	\$ 0	\$ (8,669)
General Government	34,340	0	0	0	(34,340)
Public Works	43,064	0	35,716	0	(7,348)
Other Functions	5,849	0	0	0	(5,849)
Interest in Long Term Debt	1,333	0	0	0	(1,333)
Total Governmental Activities	\$ 93,255	\$ 0	\$ 35,716	\$ 0	\$ (57,539)

GENERAL REVENUES

Taxes	\$ 26,190
State Grants	25,683
Unrestricted Investment Earnings	15,237
Gain on Sale of Capital Assets	17,232
Other	7,157
Total General Revenues	\$ 91,499
Change in Net Assets	\$ 33,960
NET ASSETS - Beginning of Year	410,469
NET ASSETS - End of Year	\$ 444,429

The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

FEBRUARY 28, 2006

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TOTALS
<u>ASSETS</u>				
Cash	\$ 16,734	\$ 6,681	\$ 2,815	\$ 26,230
Receivables				
Taxes	5,194	0	0	5,194
Due from Other Funds	1,723	0	0	1,723
Due from Other Governments	4,153	6,002	7,802	17,957
TOTAL ASSETS	<u>\$ 27,804</u>	<u>\$ 12,683</u>	<u>\$ 10,617</u>	<u>\$ 51,104</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 1,262	\$ 8	\$ 0	\$ 1,270
Due to Other Funds	0	1,120	603	1,723
Total Liabilities	<u>\$ 1,262</u>	<u>\$ 1,128</u>	<u>\$ 603</u>	<u>\$ 2,993</u>
<u>FUND BALANCE</u>				
Unreserved:				
Designated for:				
Street Improvements	\$ 0	\$ 11,555	10,014	\$ 21,569
Undesignated	26,542	0	0	26,542
Total Fund Balance	<u>\$ 26,542</u>	<u>\$ 11,555</u>	<u>\$ 10,014</u>	<u>\$ 48,111</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 27,804</u>	 <u>\$ 12,683</u>	 <u>\$ 10,617</u>	 <u>\$ 51,104</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
FEBRUARY 28, 2006

Total Fund Balances for Governmental Funds	\$	48,111
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Buildings	\$	119,950	
Land		1	
Land Improvements		7,829	
Equipment		71,748	
Streets		311,543	
Sidewalks		75,030	
Accumulated Depreciation		<u>(174,483)</u>	411,618

Long term liabilities are not due and payable in the current period
and therefore are not reported in the funds

Equipment Contract Payable		<u>(15,300)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>444,429</u></u>
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The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED FEBRUARY 28, 2006

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TOTALS
<u>REVENUES</u>				
Taxes	\$ 26,190	\$ 0	\$ 0	\$ 26,190
State Grants	25,683	22,678	13,038	61,399
Interest and Rents	15,220	15	2	15,237
Other Revenues	29,728	0	0	29,728
Total Revenues	\$ 96,821	\$ 22,693	\$ 13,040	\$ 132,554
<u>EXPENDITURES</u>				
Legislative	\$ 8,669	\$ 0	\$ 0	\$ 8,669
General Government	34,777	0	0	34,777
Public Works	51,032	17,821	7,213	76,066
Other Functions	5,849	0	0	5,849
Debt Service	13,896	0	3,258	17,154
Total Expenditures	\$ 114,223	\$ 17,821	\$ 10,471	\$ 142,515
Excess (Deficiency) of Revenues Over Expenditures	\$ (17,402)	\$ 4,872	\$ 2,569	\$ (9,961)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfer In	\$ 0	\$ 0	\$ 4,627	\$ 4,627
Transfer Out	0	(4,627)	0	(4,627)
Loan Proceeds	18,450	0	0	18,450
Total Other Financing Sources (Uses)	\$ 18,450	\$ (4,627)	\$ 4,627	\$ 18,450
Net Change in Fund Balance	\$ 1,048	\$ 245	\$ 7,196	\$ 8,489
<u>FUND BALANCES</u> - Beginning of Year	25,494	11,310	2,818	39,622
<u>FUND BALANCES</u> - End of Year	\$ 26,542	\$ 11,555	\$ 10,014	\$ 48,111

The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 28, 2006

Net Change in Fund Balance - Total Governmental Funds	\$ 8,489
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation in the statement of activities.	
Depreciation Expense	(14,455)
Capital Outlay	47,894
In the statement of activities, only the gain or loss on the sale of fixed assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balances by the cost of the fixed assets sold net of accumulated depreciation.	
	(5,339)
Loan proceeds provide current financial resources to governmental funds, but not in the statement of activities (where they are a reduction of assets)	
	(18,450)
Repayments of principal on long-term debt are an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	
Note Payable	<u>15,821</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 33,960</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of Tustin, Michigan, is a general law village incorporated under the General Village Act of 1895. As required by generally accepted accounting principles, these financial statements present all activities of the Village. Entities for which the Village is considered to be financially accountable are called component units. The Village has no component units.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Village adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Village as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Village are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The Village of Tustin reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares.

The *Local Street Fund* receives all local street money paid to the Village by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2006

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Village has authorized the Village Treasurer to invest in bank savings accounts, bank certificates of deposit, securities of the U.S. Government, and repurchase agreements from banks. The State also permits local units of government to invest funds in commercial paper (unsecured notes of businesses and corporations). Such obligations must be rated in one of the three highest classifications by two of the national rating services in order to qualify for local government investment. Other statutory limits are that commercial obligations may not extend for more than 270 days, and not more than one half of the total investments may be invested in commercial paper.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of July 1. Village taxes are levied January 1, become a lien on July 1, and become delinquent after September 14. Village property tax revenues are recognized when they become both measurable and available for use to finance Village

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2006

operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2005 taxable valuation of the Village of Tustin totaled \$2,570,255, on which ad valorem taxes levied consisted of 10.000 mills for the Village of Tustin operating purposes.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed when acquired.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Infrastructure	50
Land Improvements	20
Equipment	10-20
Vehicles	10
Computers and Copiers	5

6. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2006

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund Balance*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. *Budgetary Information*

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 14, 2005, or as amended by the Village Council from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Village Council exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. *Funds with Expenditures in Excess of Appropriations were as follows:*

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund	\$ 97,854	\$	114,223
Local Street Fund	9,768		10,471

VILLAGE OF TUSTIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

These overages were funded by available fund balance and greater-than anticipated revenues.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Village's deposits are owned by the Village's funds. At year-end, the carrying amount of the Village's deposits was \$26,230 and the bank balance was \$26,661. Of the bank balance, \$26,661 was covered by Federal depository insurance and there were no funds that were uninsured and uncollateralized.

Investment rate risk. The Village will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Village's cash requirement.

Foreign currency risk. The Village is not authorized to invest in investments, which have this type of risk.

Credit risk. The Village will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Village's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Village will do business in accordance with the Village's investment policy.

Concentration of credit risk. The Village will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of February 28, 2006, none of the Village's funds were exposed to custodial credit risk.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village's investments are categorized to give an indication of the level of risk assumed by the Village at year end. Category 1 includes investments that are insured or registered, or securities held by the Village or the Village's agent in the Village's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Village's name. Category 3 includes

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Village's name. At year end, the Village held no investments.

B. Receivables

Receivables as of year end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	Major Street	Local Street	Total
Receivables				
Taxes	\$ 5,194	\$ 0	\$ 0	\$ 5,194
Intergovernmental	4,153	6,002	7,802	17,957
Total	<u>\$ 9,347</u>	<u>\$ 6,002</u>	<u>\$ 7,802</u>	<u>\$ 23,151</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 1	\$ 0	\$ 0	\$ 1
Capital assets, being depreciated				
Buildings	\$ 119,950	\$ 0	\$ 0	\$ 119,950
Land Improvements	6,389	1,440	0	7,829
Equipment	63,211	42,774	(34,237)	71,748
Streets	307,863	3,680	0	311,543
Sidewalks	75,030	0	0	75,030
Total capital assets, being depreciated	\$ 572,443	\$ 47,894	\$ (34,237)	586,100
Less accumulated depreciation for:				
Buildings	\$ 28,605	\$ 2,159	\$ 0	\$ 30,764
Land Improvements	479	344	0	823
Equipment	52,819	4,264	(28,899)	28,184
Streets	99,230	6,187	0	105,417
Sidewalks	7,794	1,501	0	9,295
Total accumulated depreciation	\$ 188,927	\$ 14,455	\$ (28,899)	\$ 174,483
Total capital assets, being depreciated, net	\$ 383,516	\$ 33,439	\$ (5,338)	\$ 411,617
Governmental activities capital assets, net	\$ 383,517	\$ 33,439	\$ (5,338)	\$ 411,618

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 2,502
Public Works	11,953
Total	<u>\$ 14,455</u>

Construction Commitments:

The Village had no outstanding construction commitments as of February 28, 2006.

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at February 28, 2006, were:

<u>Fund</u>	INTERFUND RECEIVABLES DUE FROM'S	INTERFUND PAYABLES DUE TO'S
Primary Government Only Due From/To Other Funds:		
General Fund		
Major Streets	\$ 1,120	\$ 0
Local Streets	603	0
Major Streets		
General Fund	0	1,120
Local Streets		
General Fund	0	603
Total Primary Government	\$ 1,723	\$ 1,723

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

Interfund Transfers as of February 28, 2006, were:

	TRANSFERS	
	IN	OUT
Primary Government		
Major Street Fund	\$ 0	\$ 4,627
Local Street Fund	4,627	0
	\$ 4,627	\$ 4,627

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-Term Debt

The following is a summary of debt transactions of the Village of Tustin for the year ended February 28, 2006:

VILLAGE OF TUSTIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

Governmental Activities:

	<u>OTHER DEBT</u>
Debt Payable at	
March 1, 2005	\$ 12,671
Debt Retired	(15,821)
New Debt Issued	<u>18,450</u>
Debt Payable at February 28, 2006	\$ 15,300
Due Within One Year	<u><u>\$ 3,407</u></u>

Debt payable at February 28, 2006 is comprised of the following individual issues:

Other Debt

Equipment Contract

\$18,450 Contract payable to John Deere Credit for purchase of tractor,
due in monthly installments of \$374.47 at 7.9% interest. \$ 15,300

The annual requirements to amortize all debt outstanding for the governmental activities as of February 28, 2006, are as follows:

	Principal		Interest		Total
2007	\$ 3,407	\$	1,087	\$	4,494
2008	3,685		808		4,493
2009	3,987		506		4,493
2010	<u>4,221</u>		<u>178</u>		<u>4,399</u>
Total	<u>\$ 15,300</u>	\$	<u>2,579</u>	\$	<u>17,879</u>

G. Fund Balance Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has designated unreserved portions of certain fund balances/retained earnings in various funds for intended future uses. These designations are detailed in the following schedule:

VILLAGE OF TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

FUND BALANCE/NET ASSETS

Unreserved-Designated	
Special Revenue Funds	
Major Street Fund	
Major Streets	\$ 11,555
Local Street Fund	
Local Streets	<u>10,014</u>
 TOTAL FUND BALANCE DESIGNATIONS	 \$ <u><u>21,569</u></u>

IV. OTHER INFORMATION

A. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Village carries commercial insurance to cover these risks of loss.

In addition, the Village carries commercial insurance to cover property and casualty, crime, general liability, errors and omissions, and fidelity bonds.

VILLAGE OF TUSTIN, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
YEAR ENDED FEBRUARY 28, 2006

	GENERAL FUND				MAJOR STREET FUND				LOCAL STREET FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES												
Taxes	\$ 25,000	\$ 25,000	\$ 26,190	\$ 1,190	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
State Grants	24,000	24,000	25,683	1,683	21,000	21,000	22,678	1,678	7,500	7,500	13,038	5,538
Interest and Rents	14,280	14,280	15,220	940	20	20	15	(5)	3	3	2	(1)
Other Revenues	7,500	7,500	29,728	22,228	0	0	0	0	0	0	0	0
Total Revenues	\$ 70,780	\$ 70,780	\$ 96,821	\$ 26,041	\$ 21,020	\$ 21,020	\$ 22,693	\$ 1,673	\$ 7,503	\$ 7,503	\$ 13,040	\$ 5,537
EXPENDITURES												
Legislative												
Village Council	\$ 7,850	\$ 9,920	\$ 8,669	\$ 1,251	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
General Government												
Village President	1,200	1,300	1,300	0	0	0	0	0	0	0	0	0
Elections	500	500	0	500	0	0	0	0	0	0	0	0
Clerk	5,100	5,550	5,462	88	0	0	0	0	0	0	0	0
Treasurer	5,425	5,650	5,528	122	0	0	0	0	0	0	0	0
Building and Grounds	19,275	23,225	22,487	738	0	0	0	0	0	0	0	0
Public Works												
Highways, Streets and Bridges	0	0	0	0	18,404	18,404	17,821	583	6,268	6,268	7,213	(945)
Equipment	9,100	10,200	44,366	(34,166)	0	0	0	0	0	0	0	0
Sidewalks	0	0	498	(498)	0	0	0	0	0	0	0	0
Signs	500	500	0	500	0	0	0	0	0	0	0	0
Street Lighting	7,000	7,500	6,168	1,332	0	0	0	0	0	0	0	0
Other Functions	23,509	23,509	5,849	17,660	0	0	0	0	0	0	0	0
Debt Service												
Principal	10,000	10,000	12,686	(2,686)	0	0	0	0	3,500	3,500	3,135	365
Interest	0	0	1,210	(1,210)	0	0	0	0	0	0	123	(123)
Total Expenditures	\$ 89,459	\$ 97,854	\$ 114,223	\$ (16,369)	\$ 18,404	\$ 18,404	\$ 17,821	\$ 583	\$ 9,768	\$ 9,768	\$ 10,471	\$ (703)
Excess (Deficiency) of Revenues Over Expenditures	\$ (18,679)	\$ (27,074)	\$ (17,402)	\$ 9,672	\$ 2,616	\$ 2,616	\$ 4,872	\$ 2,256	\$ (2,265)	\$ (2,265)	\$ 2,569	\$ 4,834
OTHER FINANCING SOURCES (USES)												
Transfer In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,627	\$ (4,627)
Transfer Out	0	0	0	0	0	0	(4,627)	4,627	0	0	0	0
Loan Proceeds	0	0	18,450	(18,450)	0	0	0	0	0	0	0	0
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 18,450	\$ (18,450)	\$ 0	\$ 0	\$ (4,627)	\$ 4,627	\$ 0	\$ 0	\$ 4,627	\$ (4,627)
Net Change in Fund Balance	\$ (18,679)	\$ (27,074)	\$ 1,048	\$ (8,778)	\$ 2,616	\$ 2,616	\$ 245	\$ 6,883	\$ (2,265)	\$ (2,265)	\$ 7,196	\$ 207
FUND BALANCE - Beginning of Year	25,494	25,494	25,494	0	11,310	11,310	11,310	0	2,818	2,818	2,818	0
FUND BALANCE - End of Year	\$ 6,815	\$ (1,580)	\$ 26,542	\$ (8,778)	\$ 13,926	\$ 13,926	\$ 11,555	\$ 6,883	\$ 553	\$ 553	\$ 10,014	\$ 207

VILLAGE OF TUSTIN, MICHIGAN

GENERAL FUND
BALANCE SHEET

FEBRUARY 28, 2006

ASSETS

Cash	\$ 16,734
Taxes Receivable	5,194
Due from Other Funds	
Major Street Fund	1,120
Local Street Fund	603
Due from Other Governments	4,153
	<hr/>
TOTAL ASSETS	<u>\$ 27,804</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 1,262
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FUND BALANCE

Unreserved	<hr/> 26,542
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 27,804</u>
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VILLAGE OF TUSTIN, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED FEBRUARY 28, 2006

	BUDGET		
	ORIGINAL	FINAL	ACTUAL
<u>REVENUES</u>			
Taxes	25,000	25,000	\$ 26,190
State Grants	24,000	24,000	25,683
Interest and Rents	14,280	14,280	15,220
Other Revenues	7,500	7,500	29,728
Total Revenues	\$ 70,780	\$ 70,780	\$ 96,821
<u>EXPENDITURES</u>			
Legislative			
Village Council	7,850	9,920	\$ 8,669
General Government			
Village President	1,200	1,300	1,300
Elections	500	500	0
Clerk	5,100	5,550	5,462
Treasurer	5,425	5,650	5,528
Building and Grounds	19,275	23,225	22,487
Public Works			
Equipment	9,100	10,200	44,366
Sidewalks	0	0	498
Signs	500	500	0
Street Lighting	7,000	7,500	6,168
Other Functions	23,509	23,509	5,849
Debt Service			
Principal	10,000	10,000	12,686
Interest	0	0	1,210
Total Expenditures	\$ 89,459	\$ 97,854	\$ 114,223
Excess (Deficiency) of Revenues			
Over Expenditures	\$ (18,679)	\$ (27,074)	\$ (17,402)

VILLAGE OF TUSTIN, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED FEBRUARY 28, 2006

	<u>BUDGET</u>		<u>ACTUAL</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	
<u>OTHER FINANCING SOURCES (USES)</u>			
Loan Proceeds	\$ 0	\$ 0	\$ 18,450
Net Change in Fund Balance	\$ (18,679)	\$ (27,074)	\$ 1,048
<u>FUND BALANCE</u> - Beginning of Year	25,494	25,494	25,494
<u>FUND BALANCE (DEFICIT)</u> - End of Year	<u>\$ 6,815</u>	<u>\$ (1,580)</u>	<u>\$ 26,542</u>

VILLAGE OF TUSTIN, MICHIGAN

MAJOR STREET FUND
BALANCE SHEET

FEBRUARY 28, 2006

ASSETS

Cash	\$ 6,681
Due from Other Governments	<u>6,002</u>
TOTAL ASSETS	<u>\$ 12,683</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 8
Due to Other Funds	<u>1,120</u>
Total Liabilities	1,128

FUND BALANCE

Designated for Street Improvements	<u>11,555</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 12,683</u>

VILLAGE OF TUSTIN, MICHIGAN

MAJOR STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED FEBRUARY 28, 2006

	<u>BUDGET</u>		<u>ACTUAL</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	
<u>REVENUES</u>			
State Grants			
Motor Vehicle Highway Fund - Act 51	\$ 21,000	\$ 21,000	\$ 22,678
Interest and Rents			
Interest Earnings	20	20	15
Total Revenues	\$ 21,020	\$ 21,020	\$ 22,693
<u>EXPENDITURES</u>			
Public Works			
Highways, Streets and Bridges			
Administration and Engineering	\$ 312	\$ 312	\$ 312
Routine Maintenance	6,000	6,000	4,006
Equipment Rental	8,000	8,000	9,604
Traffic Services	92	92	219
Construction	4,000	4,000	3,680
Total Expenditures	\$ 18,404	\$ 18,404	\$ 17,821
Excess (Deficiency) of Revenues Over Expenditures	\$ 2,616	\$ 2,616	\$ 4,872
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer Out - Local Street Fund	\$ 0	\$ 0	\$ (4,627)
Net Change in Fund Balance	\$ 2,616	\$ 2,616	\$ 245
<u>FUND BALANCE</u> - Beginning of Year	11,310	11,310	11,310
<u>FUND BALANCE</u> - End of Year	\$ 13,926	\$ 13,926	\$ 11,555

VILLAGE OF TUSTIN, MICHIGAN

LOCAL STREET FUND
BALANCE SHEET

FEBRUARY 28, 2006

ASSETS

Cash	\$ 2,815
Due from Other Governments	<u>7,802</u>
TOTAL ASSETS	<u>\$ 10,617</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to Other Funds	\$ 603
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FUND BALANCE

Designated for Street Improvements	<u>10,014</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 10,617</u>
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VILLAGE OF TUSTIN, MICHIGAN

LOCAL STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED FEBRUARY 28, 2006

	<u>BUDGET</u>		<u>ACTUAL</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	
<u>REVENUES</u>			
State Grants			
Motor Vehicle Highway Fund - Act 51	\$ 7,500	\$ 7,500	\$ 13,038
Interest and Rents			
Interest Earnings	3	3	2
Total Revenues	<u>\$ 7,503</u>	<u>\$ 7,503</u>	<u>\$ 13,040</u>
<u>EXPENDITURES</u>			
Public Works			
Highways, Streets and Bridges			
Administration and Engineering	\$ 168	\$ 168	\$ 168
Routine Maintenance	2,500	2,500	1,664
Equipment Rental	3,200	3,200	5,171
Construction	400	400	210
Debt Service			
Principal	3,500	3,500	3,135
Interest	0	0	123
Total Expenditures	<u>\$ 9,768</u>	<u>\$ 9,768</u>	<u>\$ 10,471</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,265)	\$ (2,265)	\$ 2,569
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer In - Major Street Fund	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,627</u>
Net Change in Fund Balance	\$ (2,265)	\$ (2,265)	\$ 7,196
<u>FUND BALANCE</u> - Beginning of Year	<u>2,818</u>	<u>2,818</u>	<u>2,818</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 553</u>	<u>\$ 553</u>	<u>\$ 10,014</u>

VILLAGE OF TUSTIN, MICHIGAN

STATEMENT OF 2005 TAX ROLL
FEBRUARY 28, 2006

TAXABLE VALUATION	<u>\$ 2,570,255</u>
MILLS	<u>10.0000</u>
Taxes Assessed	\$ 25,703
Taxes Collected	<u>20,509</u>
Taxes Returned Delinquent	<u>\$ 5,194</u>

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

May 5, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Village Council
Village of Tustin
Tustin, Michigan

During the course of our audit of the basic financial statements of the Village of Tustin for the year ended February 28, 2006, we noted the following list of items which we feel deserve comment:

New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued Statement 34 that provides for changes in reporting requirements for governmental financial statements. For the Village these changes were implemented in the February 28, 2006 financial audit.

Some of the more significant changes required by GASB 34 are as follows:

- a) Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
- b) Several new types of financial statements are now included that reports financial information on a government wide basis and incorporates capital assets, and a provision for depreciation on those assets.

We commend the Village for their diligent efforts and assistance necessary to implement these rather radical changes as required by this new reporting pronouncement.

Recordkeeping

The accounting records for the year ended February 28, 2006, were found to be in good order and in compliance with the State's uniform accounting system. We compliment the clerk and treasurer for a job well done.

Budgeting

Expenditures in two funds exceeded appropriations, and the final General Fund budgeted ending fund balance appears to be negative, which is not allowed by PA 621.

The Act also states that the budget document that the Village adopts include the following financial information:

- a) The actual results from the prior year
- b) An estimate of the current year results
- c) The proposed budget for the upcoming year
- d) Amounts for contingencies, if appropriate

The amount of fund balance accumulated through the end of the current year, and the amount expected at the end of the upcoming year, after applying the budgeted receipts and disbursements.

The Village Council is also responsible for amending the budget during the year to allow for expenditures in excess of original appropriations, or to reduce appropriations if it appears the actual expenditures will be much less than originally appropriated.

The adoption of the budgets for each fund should be clearly noted in the board minutes, as well as any amendments to the budget throughout the year.

Reportable Condition in Internal Controls

As part of our audit of the Village we considered the internal control structure in order to determine our auditing procedures. We are issuing a separate letter which addresses reportable conditions.

We wish to express our appreciation for the cooperation and courtesy extended to our staff by the Village clerk and treasurer during the course of our audit. In addition, we would like to thank the Village Council for its continued confidence in our firm. If you have any questions relative to the preceding comments and recommendations, or other areas of your annual audit, please feel free to call on us.

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CERTIFIED PUBLIC ACCOUNTANTS

May 5, 2006

LETTER OF REPORTABLE CONDITIONS

To the Village Council
Village of Tustin
Tustin, Michigan

In planning and performing our audit of the basic financial statements of the Village of Tustin, Michigan for the year ended February 28, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Village and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the conditions described above are material weaknesses.

This report is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.